COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, February 19, 2002

APPLICATION OF

COLUMBIA GAS OF VIRGINIA, INC.

CASE NO. PUA010068

For approval of gas supply and other related supply agreements

ORDER GRANTING APPROVAL

On November 20, 2001, Columbia Gas of Virginia, Inc., ("CGV"), filed an application with the State Corporation Commission ("Commission"), under Chapter 4, Title 56 of the Code of Virginia ("Affiliates Act"), requesting approval of certain gas supply and other related supply agreements with Bay State Gas Company ("Bay State"), Columbia Gas of Kentucky, Inc. ("CKY"), Columbia Gas of Maryland, Inc. ("CMD"), Columbia Gas of Ohio, Inc. ("COH"), Columbia Gas of Pennsylvania, Inc. ("CPA"), Columbia Gas Transmission Corporation ("Columbia Transmission"), Energy USA-TPC Corp. ("TPC"), Kokomo Gas and Fuel Company ("Kokomo"), Northern Indiana Fuel and Light Co., Inc. ("NIFL"), Northern Indiana Public Service Company ("NIPSCO"), and Northern Utilities ("Northern"), and a Gas Supply Policy governing transactions with affiliates. By Commission Order dated January 17, 2002, the Commission extended the period for review of the application through February 19, 2002.

CGV is a natural gas distribution company serving approximately 193,000 customers in central Virginia, southside Virginia, Piedmont Virginia, and most of the Shenandoah Valley as well as portions of Northern and Southwest Virginia. CGV is a wholly owned subsidiary of Columbia Energy Group.

Columbia Energy Group has five natural gas distribution subsidiaries: CGV, CKY, a Kentucky corporation, CMD, a Delaware corporation, COH, an Ohio corporation, and CPA, a Pennsylvania corporation, collectively referred to as the "Columbia Distribution Companies." Columbia Energy Group is a wholly owned subsidiary of NiSource, Inc. ("NiSource"). Columbia Energy Group is a registered holding company under the federal Public Utility Holding Company Act of 1935 ("PUHCA"). NiSource is also a registered holding company under PUHCA.

In addition to the Columbia Distribution Companies, NiSource has five direct subsidiaries engaged in the distribution of natural gas to retail customers in Indiana and New England. Those five are Bay State, a Massachusetts corporation, Kokomo, an Indiana corporation, NIPSCO, an Indiana corporation, NIFL, an Indiana corporation, and Northern, a New Hampshire corporation, collectively referred to as the "Other NiSource Distribution Companies."

Columbia Transmission is also a wholly owned subsidiary of Columbia Energy Group. Columbia Transmission is a "natural gas company" under the Natural Gas Act and is engaged in the transmission and storage of natural gas in interstate commerce. These activities are subject to the regulatory jurisdiction of the Federal Energy Regulatory Commission ("FERC").

TPC is a wholly owned subsidiary of Energy USA, Inc., which is also a wholly owned subsidiary of NiSource, Inc. TPC is an energy marketing company that, among other things, is engaged in selling, purchasing, and exchanging natural gas commodity and other related services.

CGV requests approval of certain gas supply and other related supply agreements with Bay State, CKY, CMD, COH, CPA, Columbia Transmission, TPC, Kokomo, NIFL, NIPSCO, and Northern, and a Gas Supply Policy governing transactions with affiliates. Specifically, CGV requests approval of Gas Supply Contracts and Arrangements including a formal Gas Supply Policy, Base Contract with TPC, Base Contracts with Columbia Distribution Companies and the Other NiSource Distribution Companies, and an LNG Agreement with Columbia Transmission.

Gas Supply Contracts and Arrangements

CGV states that in the gas industry it has become customary for sellers and buyers to negotiate a standardized base contract ("Base Contract") for the purchase, sale, and other gas supply transactions such as the exchange of natural gas. The Base Contract creates a contractual framework within which the parties can enter into one or more individual gas supply transactions by means of a Transaction Confirmation. The Transaction Confirmation incorporates the standardized terms and conditions of the Base Contract. Under the Base Contract, the role of each party may differ from buyer to seller depending on the circumstances. A Transaction Confirmation specifies the details of a particular transaction with respect to such key terms as quantity, price, term, delivery and receipt points, and any other special provisions of the transaction. This procedure of employing a Base Contract with Transaction Confirmations allows the parties to quickly execute market orders and avoid unnecessary delays that may result from contract negotiations for specific sales and purchases.

As described below, CGV requests approval to enter into Base Contracts with TPC, the Columbia Distribution Companies, and the Other NiSource Distribution Companies. CGV requests approval to execute the Transaction Confirmations under the Base Contracts without further Commission approval. CGV also requests approval of a formal Gas Supply Policy. The Gas Supply Policy governs how CGV will manage gas supply transactions with its affiliates.

CGV states that, to fulfill its obligation as a supplier of economic-reliable gas supplies to its customers, CGV monitors and participates in the gas marketplace to obtain and, at times, reduce, its available gas supplies. This process includes obtaining market information from a pool of suppliers, which includes affiliates of CGV, that may be interested in entering into a gas supply transaction with CGV. CGV will use the market information to identify the market price and the availability of supply from various buyers and sellers of natural gas, including affiliates.

Under the Gas Supply Policy, when CGV is the buyer, it will use market information to obtain the lowest price for gas transactions that meets its reliability requirements. In non-emergency situations, CGV will only be the purchaser in a gas transaction with an affiliate if the price is at or below current market prices at the time of entry into the transaction. When CGV is the seller, it will use market information to obtain the highest price for gas transactions. The Gas Supply Policy states that, in non-emergency situations, CGV will only be the seller to an affiliate if the price is at or above current market prices at the time the transaction takes place. During an emergency or critical situations, CGV represents that its relationship with several gas utilities under the same corporate umbrella can be beneficial to CGV as a result of having access to a larger market than it would as a stand alone distribution company. Under such situations, gas supply transactions will be at the market price.

Base Contract with TPC

CGV requests approval of a Base Contract entered into with TPC on June 1, 2000, establishing the terms governing purchases, sales, and/or exchanges of gas between the parties. Pursuant to the Base Contract, CGV and TPC entered into a Transaction Confirmation in

September 2000 (prior to affiliation) for gas that began flowing in November of 2000 (after affiliation). In addition, CGV entered into one additional Transaction Confirmation in October of 2001 for gas to begin flowing in November of 2001. The quantity of gas would be mutually agreed upon and would be priced at market. The contract became effective prior to the merger with NiSource and, therefore, prior to affiliation with TPC.

CGV realizes that it should have requested Commission approval contempo- raneously with the merger. CGV asserts that its failure to obtain Commission approval was inadvertent and has not caused any harm to its customers. CGV only has been a purchaser with TPC up to this point.

Base Contracts with Columbia Distribution Companies and the Other NiSource Distribution Companies

Pursuant to unexecuted Base Contracts with the Columbia Distribution Companies, CGV entered into occasional supply transactions with the Columbia Distribution Companies. Such arrangements were made pursuant to Transaction Confirmations and under terms and conditions similar to those in the TPC Base Contract. CGV states that, in general, gas supply transactions with a Columbia Distribution Company occurs in emergency situations or when one company has a supply need that the other can fill. CGV states that such arrangements take advantage of the synergies inherent with having several utilities under the same corporate umbrella. Pricing for such transactions is the market price.

CGV requests approval of the Base Contracts with each of the Columbia Distribution Companies and the Gas Supply Policy that governs the pricing. CGV does not currently have Base Contracts with each of the Other NiSource Distribution Companies. CGV, however, proposes to enter into such Base Contracts with the Other NiSource Distribution Companies and execute Transaction Confirmations similar to those executed with the Columbia Distribution Companies. Pricing would be in accordance with the above-described Gas Supply Policy.

CGV also did not request prior approval from the Commission for the gas supply arrangements such as the Base Contracts with the Columbia Distribution Companies. Again, CGV asserts that its failure to seek approval has not harmed the public. The arrangements with the Columbia Distribution Companies involved supply-related transactions with utilities regulated by other state commissions, and the gas supply arrangements with TPC and the Columbia Distribution Companies were each based on market pricing at the time each deal was structured. CGV also states that the terms and conditions of the gas supply arrangements are substantially identical to the terms and conditions under which CGV contracts or arranges for natural gas sales, purchases, and exchanges with non-affiliated energy suppliers. CGV represents that any benefits resulting from such arrangements accruing to CGV have been (or will be) flowed through to CGV's customers as part of its gas cost recovery mechanism.

LNG Agreement with Columbia Transmission

CGV also requests approval of an agreement with Columbia Transmission and certain non-affiliates for the supply of liquefied natural gas ("LNG Agreement"). The LNG Agreement, dated November 1, 1999, and essentially deriving from agreements previously approved by the Commission in Case Nos. PUA900063 and PUA950025, is between the City of Richmond, Virginia, CGV, Virginia Natural Gas, Inc., and Columbia Transmission. The LNG Agreement reflects the resolution of disputes that arose under the LNG supply agreements previously approved by the Commission in Case No. PUA950025.

The LNG Agreement was dated November 12, 1999. Because the LNG Agreement did not affect customers and because the Commission had previously approved it, CGV did not seek approval for the LNG Agreement. This LNG Agreement is the same as the one approved previously with the exception of an added provision for dispute resolution.

THE COMMISSION, upon consideration of the application and representations of CGV and having been advised by its Staff, notes that CGV has violated the prior approval requirements under the Affiliates Act. CGV should take the steps as described to Staff during its review of the application and any other steps necessary to ensure that CGV files for and obtains approval from the Commission before entering into any future affiliate transactions.

Although CGV has requested approval of certain affiliate arrangements on their effective dates or as specified in the agreements, we believe that any approvals granted herein should be effective as of the date of this Order.

The Commission assumes there is price transparency in the natural gas market and believes that market pricing is appropriate as long as the market price used for such transactions is the lowest available delivered market price from all sources when CGV is the purchaser. When CGV is the seller, the market price should be the highest available price. We believe pricing in this manner is in the public interest and such agreements or arrangements for gas supply as described herein should be approved, for a period of 18 months. This limited approval period will allow Staff to re-evaluate such transactions to ensure that the gas supply agreements and arrangements continue to be in the public interest.

Accordingly, IT IS ORDERED THAT:

1) Pursuant to § 56-77 of the Code of Virginia, CGV is hereby granted approval of the Base Contract between CGV and TPC, including the authority to execute

individual Transaction Confirmations under the Base Contract without further Commission approval, for a period of 18 months from the date of this Order, at the prevailing market price as long as such price is the delivered market price, as previously described.

2) Pursuant to § 56-77 of the Code of Virginia, CGV is hereby granted approval to enter into the Base Contracts with the Columbia Distribution Companies and the Other NiSource Distribution Companies, including the authority to execute individual Transaction Confirmations under the Base Contracts without further Commission approval, from the date of this Order, at the prevailing market price as long as such price is the delivered market price, as previously described.

3) Approval of the Base Contracts as described herein shall be effective with the date of this Order.

4) CGV shall file a new application to extend the approval granted herein for the Base Contracts and Gas Supply Policy beyond 18 months from the date of this Order.

5) CGV shall maintain the necessary records to show that gas supply purchases from affiliates were at the lowest possible cost to meet its needs at a particular time and that sales to affiliates were at the highest possible price.

6) CGV shall provide to Staff any information deemed necessary to enable Staff to monitor effectively such transactions.

7) While we are allowing CGV to enter into the proposed Base Contracts and utilize the proposed Gas Supply Policy, we direct Staff to monitor the actual transactions to ensure that CGV and its affiliates act prudently and do not engage in anti-

competitive activities. In order to facilitate this monitoring effort, we direct CGV to maintain a log of all transactions authorized pursuant to the Base Contracts and Gas Supply Policy approved herein and to file quarterly reports regarding such transactions with the Division of Energy Regulation. The log shall, at a minimum, note the dates of individual transactions; provide a description of each transaction including the reasons underlying the transaction; explain the basis for the market price ascribed to each transaction; and, in instances where the CGV is selling gas to an affiliate, note CGV's actual cost of gas resold. CGV shall consult with Staff in developing the log and the quarterly reports within 45 days from the date of this Order.

8) CGV shall take the steps necessary to ensure that applications for approval of affiliate transactions are filed with the Commission in a timely manner and to make certain that future violations of the Affiliates Act do not occur. Such steps shall include, at a minimum, those detailed in CGV's letter to Staff of February 4, 2002.

9) Pursuant to § 56-77 of the Code of Virginia, CGV is hereby granted approval to enter into Base Contracts with future regulated affiliate distribution companies without further Commission approval to the extent that such Base Contracts are under the same terms and conditions and follow the pricing policy as approved herein. CGV shall promptly notify the Commission of any Base Contracts entered into with any future regulated affiliate distribution companies.

10) Pursuant to § 56-77 of the Code of Virginia, CGV is hereby granted approval to enter into the LNG Agreement, as described herein.

11) Pursuant to § 56-77 of the Code of Virginia, the Gas Supply Policy as submitted with the application is hereby approved.

12) CGV shall bear the burden of proof, during any rate proceeding or AIF, that gas supply purchases from affiliates were made at the lowest possible cost and that sales to affiliates were made at the highest possible price.

13) Should any terms and conditions of the agreements and arrangements change from those approved herein, Commission approval shall be required for such changes.

14) The approvals granted herein shall have no ratemaking implications.

15) The approvals granted herein shall not preclude the Commission from exercising the provisions of §§ 56-78 and 56-80 of the Code of Virginia hereafter.

16) The Commission reserves the authority to examine the books and records of any affiliate in connection with the approval granted herein whether or not the Commission regulates such affiliate.

17) If Annual Informational and/or General Rate Case Filings are not based on a calendar year, then CGV shall include the affiliate information contained in the Annual Report of Affiliate Transactions in such filings.

18) The Agreement approved herein shall be included in CGV's Annual Report of Affiliate Transactions submitted to the Commission's Director of Public Utility Accounting.

19) There appearing nothing further to be done in this matter, it hereby is dismissed.